

Colin Williams
Regulatory Frameworks (B3)
Transmission Network Services
National Grid
National Grid House
Gallows Hill
Warwick
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05 November 2012

Dear Colin

NTS GCD10 – Potential one-off change to TO Exit (Flat) Capacity Charges for April 2013

Thank you for the opportunity to comment on the above consultation.

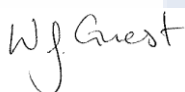
Northern Gas Networks Limited (NGN) is supportive of the National Grid National Transmission System (NTS) initiative to address the issues surrounding the uncertainty of the RIIO-T1 price control final settlement and the ongoing issue of NTS Exit Capacity charging volatility. Exit Capacity charges at offtakes within the NGN network have been particularly volatile over the current price control period and NGN feel the commencement of the RIIO-GD1 and T1 price control is an appropriate opportunity to address this issue and attempt to mitigate future charging volatility.

To this end, whilst NGN supports the NTS proposals to change TO Exit (Flat) Capacity charges from April 2013, to realign prices with those in accordance with the final RIIO-T1 settlement figure, we feel this is only a short term solution. NGN believe the misalignment between setting prices in October each year to recover revenue over April to March formula years provides unnecessary levels of uncertainty and volatility. We believe a permanent change to setting prices in April each year is required, in line with the Gas Distribution Networks (DNs), with sufficient notice provided to allow any changes to be reflected in the DN Exit Capacity charges which are levied onto the shippers. NGN may seek to work with the other DN's and the shipper community to provide appropriate modifications to the Uniform Network Code (UNC) if these issues are not adequately addressed within this consultation.

NGN's responses to the specific questions raised in the consultation are provided in the Appendix below.

If you have any queries on any aspect of this letter please do not hesitate to contact me.

Yours sincerely



Will Guest
Pricing Manager

APPENDIX

Question 1: Do you support the use of a one-off April charge change effective April 2013?

NGN support a one-off April charge change but believe the NTS should go further and provide modifications to the UNC to permanently change charges in April each year. A one-off change will only address the issue surrounding the current uncertainty of the RIIO-T1 final settlement; it will not address the ongoing issue of pricing volatility which arises from the misalignment between formula years and price setting years.

Question 2: Do you agree that a one-off April 2013 charge change should only be used if the outcome of the RIIO-T1 price control presents a significant step change in allowed revenues?

The figures provided in Appendix A of the consultation highlights a significant variation in indicative offtake charges between those based on the NTS RIIO-T1 submission and the Ofgem Initial Proposals. For example, indicative charges at NGN's Coldstream offtake change from 0.0029p/kWh/d to 0.0001p/kWh/d. NGN is concerned the differences between the two sets of figures is not proportional across the offtakes, and therefore believes a April 2013 price change would be required unless there is no material difference between the charges at all offtakes.

Question 3: Would a one-off April change have an adverse impact on any of your business processes?

To the contrary, an April price change would have a positive effect on our business processes, through improved forecasting and more accurate charges levied onto shippers.

Question 4: Are there any other items in relation to the use of a one-off change that you believe to be relevant that should be taken into account of warrant further consideration?

The notice period of price changes provided by the NTS should be addressed as part of this consultation. Currently the Licence and UNC notice requirements are the same for both DNs and the NTS, with indicative prices are required to be provided 150 days prior to price setting with actual charges provided two months prior to price setting. Any move to an April price change would require the NTS to provide additional notice to DNs to prevent the situation where the DNs would be required to set Exit Capacity charges to shippers on the same day we receive the charges from NTS.